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September 19, 2000

VIA HAND DELIVERY

David Waddell, Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37238

REC'D TN
REGULATORY AUTH.
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OFFICE OF THE
EXECUTIVE SECRETARY

Re: *Generic Docket Addressing Rural Universal Service*
Docket No. 00-00523

Dear Mr. Waddell:

Enclosed are the original and thirteen copies of the Reply Comments BellSouth Telecommunications, Inc. Copies of the enclosed are being provided to counsel of record for all parties.

Very truly yours,

Guy M. Hicks

by ch w/permission

GMH:ch
Enclosure

POSTED
9-20-00

BEFORE THE TENNESSEE REGULATORY AUTHORITY
Nashville, Tennessee

IN RE: *Generic Docket Addressing Rural Universal Service*

Docket No. 00-00523

REPLY COMMENTS OF BELL SOUTH TELECOMMUNICATIONS, INC.

BellSouth Telecommunications, Inc. ("BellSouth"), hereby respectfully files its Comments in Reply to the Comments of the Rural Independent Coalition ("Coalition") filed in this docket on September 5, 2000, and states the following:

BellSouth supports the concept of a universal service plan for rural companies. However, BellSouth believes that a universal service plan for rural companies (or for that matter, for non-rural companies), must be structured so that the required universal service support is equal to the difference between the cost of providing universal service and the revenue derived from providing the services that constitute universal service. However, even if other revenue sources are considered, the principle remains the same, the fund should equal the amount by which the pertinent costs exceed revenue. In portions of its Comments, the Coalition appears to share this belief. In other portions of the Coalition Comments, however, and in the specific plan proposed by the Coalition, this principle as to how universal service support should be defined is not observed.

Specifically, in response to Issue No. 8, the Coalition states that if a number of identified services do "not generate revenues sufficient to recover the rural company's cost, the company will require an additional cost recovery mechanism."

(Coalition Comments, p. 11). Again, BellSouth agrees with this approach. In the Coalition's universal service rate design plan, however, it appears to abandon this approach. The coalition instead proposes that the Authority set a rate level benchmark that would be "comparable to customer rate levels charged in other areas of the state." (Coalition Comments, p. 20). The Coalition then proposes that the difference between "a company's base year intrastate revenues" and the level that would be generated by applying the transitional benchmark rate would be recovered from the state universal service fund. (p. 21). It is obvious that this proposal does not consider the cost of the rural companies at all. Instead, under the plan, the current rates charged by a rural company would apparently be presumed to be equal to its costs. Thus, any reduction in revenue to the benchmark level would be recovered as if the revenues generated at the benchmark level do not cover the company's cost. Of course, without a cost study of some sort, it would be impossible to know if this is actually the case.

BellSouth submits that the Coalition appears to misapprehend the purpose of universal service. This is not a mechanism designed to make rural companies whole (or for that matter any companies) by guaranteeing that there will be no reduction to current revenues. Instead, the purpose of the fund is to ensure that to the extent that the cost of providing universal service exceeds revenues, universal service support is available to cover this difference. The rural carriers' proposal is inconsistent with this approach because it simply neglects the crucial step of determining the cost to provide the service(s) in question.

This same confusion appears to influence another portion of the rural carriers' Comments, in which they appear to request that the Authority prohibit BellSouth from obtaining any adjustment to current compensation levels for the exchange of intraLATA toll traffic between independents and BellSouth outside of the context of this proceeding. The Coalition appears to acknowledge that retail intraLATA toll rates have declined in recent years, but fails to point out that settlement payment rates from BellSouth to independents have remained unchanged for nearly ten years. The Coalition maintains that BellSouth should not be able to change the current toll settlement structure in any way unless it is done in the context of this proceeding, and there is established "a replacement plan." (Coalition Comments, p. 27). In other words, the Coalition appears to believe that to the extent the arrangements with BellSouth are altered, the Authority must approve this alteration, and that Coalition members are entitled to recover in this proceeding any revenue lost as a result of changes to these agreements. BellSouth submits that the Coalition is mistaken on both points.

First, contracts that have existed between Independent Companies and BellSouth for the exchange of intraLATA toll traffic have never been subjected to direct oversight by the Authority. These agreements were entered into outside of any regulatory proceeding, they are not subject to any specific standards or rules set by the Authority for these agreements, and the agreements have not been submitted in the past to the Authority for approval. Given this, there is no justification for the position that any alteration to these agreements can only be

done in the context of a universal service case.¹ To the extent that changes in the subject Agreements result in a reduction in revenues, this could certainly be considered when comparing revenues to costs for universal service purposes. There is no reason, however, that the actual changes to the contract must now be submitted to the Authority in the context of a universal service docket. Again, the apparent purpose for doing so would be to require BellSouth to make payments under the current arrangements until some mechanism is developed in this proceeding to replace any lost revenue. In other words, this is just a specific manifestation of the Coalition's mistaken view that its members are entitled to a guarantee of current revenues. For the reasons set forth above, this approach should be rejected.

Moreover, even if the Authority were to consider these Agreements in this docket, BellSouth submits that the Coalition's Comments do not present an accurate picture of the current arrangements. First, by referring to the termination of agreements, the Coalition gives the impression that traffic will no longer be exchanged. This is not the case. BellSouth does not contemplate any change in physical facilities. Instead, what BellSouth has requested that independent companies do, (and what they have declined to do to date), is to negotiate a change in the compensation arrangements for the exchange of traffic. BellSouth believes that it is perfectly appropriate to do this for a number of reasons, not least of which are the facts that the current arrangement pre-dates (1) the establishment

¹ Indeed, the Initial Comments filed by Citizens implicitly acknowledge BellSouth's right to cancel these agreements. Nor is BellSouth aware of any action

of intraLATA facility-based competition; (2) the existence of some independents having affiliated long distance carriers and (3) the establishment of intraLATA toll dialing parity.

Moreover, BellSouth submits that the Coalition has overstated the effect of the contemplated change. The Coalition contends that "in the aggregate, implementation of the BellSouth proposal equates to a revenue loss of \$15.4 million" (p. 25). To the contrary, BellSouth's analysis of a worst case scenario reveals that, at most, the aggregate reduction in revenues for all independent companies would be no more than 4.7 million dollars. Specifically, the breakdown is as follows:

	Present	Proposed	Change to ICOs
1 Toll Rev. retained by ICOs	0	\$19M ²	\$19M
2 Sett. from BellSouth	\$34M	\$11.8M	(\$22.2M)
3 Payments to BellSouth	0	\$1.5M	\$1.5M
4 Net Revenues (1 + 2 - 3)	\$34M	\$29.3M	(\$4.7M)

Thus, the impact upon Coalition members would appear to be, in the worst case scenario, less than one-third of the amount claimed in the Coalition's Comments. This, of course, means that the Coalition's worst-case scenario claims as to per line effects are greatly exaggerated as well.

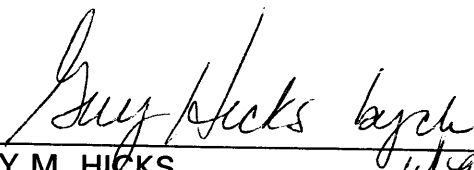
Regardless of the precise amount of any negative impact resulting from a change in the agreements between BellSouth and independents, the fact remains

taken by the Authority to intervene with respect to the Citizens agreements.

that this impact should, at most, be considered like any other change in revenue in the context of determining an appropriate universal service fund. In other words, an assessment should be made of the cost of each rural company; this amount should be compared to the pertinent revenues; and the fund should be no more than the difference. The Coalition's apparent desire to have its members' current revenue guaranteed is inconsistent with the above-described approach and, more to the point, is inconsistent with the principles of universal service.

Respectfully submitted,

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² ICOs are free to enter into the toll market to recapture any lost revenue. Indeed the Citizens Communications Companies have already entered that market.

CERTIFICATE OF SERVICE

I hereby certify that on September 19, 2000, a copy of the foregoing document was served on the parties of record, via the method indicated:

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- ☒ Mail
- ☐ Facsimile
- ☐ Overnight

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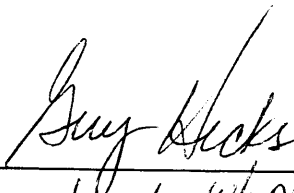
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by Guy Hicks
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